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Message Text

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TAGS: EFIN, EEC
SUBJECT: EC FISCAL COUNCIL MEETING ON NOV. 24 -- A REVIEW OF EC TAX PROPOSALS

REF: A) EC BRUSSELS 6887
B) EC BRUSSELS 1029
C) EC A-239, JULY 30, 1974
D) EC A-322, AUGUST 22, 1973

1. SUMMARY: A SPECIAL EC FISCAL COUNCIL WILL CONSIDER ON NOV. 24 THE OUTSTANDING ISSUES THAT NEED RESOLUTION BEFORE THE MEMBER STATES ARE PREPARED TO ADOPT A UNIFORM ASSESSMENT BASE FOR THE VALUE ADDED TAX. THIS MEASURE WOULS NOT EFFECT MEMBER STATE VAT RATES. THE COMMISSION IS SEEKING PROMPT ACTION ON THE VAT MEASURE AS A MEANS TO FURTHER EC ECONOMIC INTEGRATION AS WELL AS PLACING THE FINANCING OF THE EC BUDGET ON ITS OWN RESOURCES. BECAUSE OF STRONG NATIONAL INTERESTS, THE MEMBER STATES ARE RELUCTANT EVEN TO ADOPT A UNIFORM VAT BASE AND THEY ARE SEEKING DEROGATIONS TO AVOID HAVING TO CHANGE LONG-ESTABLISHED NATIONAL TAX PRACTICES. THE COUNCIL WILL ALSO REVIEW THE COMMISSION'S MEDIUM-TERM TAX PROGRAM. END SUMMARY.

2. AN EC FISCAL COUNCIL WILL MEET ON NOV. 24 TO SET THE PRIORITIES FOR FUTURE EC TAX LEGISLATION. NO
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DECISIONS ARE EXPECTED BUT THE COUNCIL WILL INDICATE WHETHER

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MEMBER STATES ARE WILLING TO ACT ON THE LONG DELAYED PROPOSED
DIRECTIVE TO ESTABLISH A UNIFORM BASE OF ASSESSMENT FOR THE VALUE
ADDED TAX (SEE REF D)
THE COUNCIL DECIDED IN 1970 TO FUND THE EC BUDGET FROM ITS OWN
RESOURCES,PART OF WHICH WOULD COME FROM A VAT ASSESSMENT OF UP
TO 1 PERCENT ON A UNIFORM BASIS THROUGHOUT THE COMMUNITY. THE
COMMISSION PROPOSED A DIRECTIVE IN JUNE 1973 TO MAKE UNIFORM THE
ASSESSMENT BASE OF THE VAT. THIS MEASURE,HOWEVER, WOULD NOT
AFFECT ACTUAL VAT RATES WHICH WOULD REMAIN SUBSTANTIALLY DIFFERENT
AMONG MEMBER STATES. THUS, THIS
PROPOSED MEASURE DOES NOT ATTACH THE BASIC ISSUE
OF HARMONIZING EC TAX FRONTIERS. MEMBER STATE VESTED
INTERESTS ARE TOO STRONG FOR THE COMMISSION TO CONSIDER
MORE AMBITIOUS HARMONIZATION PROGRAM AT THIS TIME.
INDEED, THERE ARE SERIOUS DOUBTS WHETHER THE MEMBER
STATES ARE READY TO AGREE TO JUST MAKING THE VAT ASSESSMENT
BASE UNIFORM.

3. WHEN THE COUNCIL FAILED TO ACT ON THE 1973 PROPOSAL, THE MEMBER
STATES BEGAN TO USE A TRANSITIONAL SCHEME OF DIRECT BUDGETARY
CONTRIBUTIONS BASED ON A GNP SCALE TO MAKE UP FOR THE REVENUE TO
COME FROM THE VAT ASSESSMENT. THESE CONTRIBUTIONS ARE TO BE
ENDED IN 1978,AT WHICH TIME THE BUDGET IS TO BE FINANCED ENTIRELY
FROM OWN RESOURCES INCLUDING VAT REVENUE.

4. THE COMMISSION IS NOW ASKING THE MEMBER STATES TO
COMPROMISE ON THEIR DIFFERENCES SO THAT THE VAT
ASSESSMENT SYSTEM MIGHT BE ADOPTED AS SOON AS POSSIBLE. THE
COMMISSION BELIEVES A COUNCIL DECISION IS NEEDED BY
OCTOBER 1976 IF THE MEMBER STATES ARE TO HAVE SUFFICIENT
TIME TO MODIFY THEIR NATIONAL LEGISLATION BY 1978. THE
COMSSION WANT TO HARMONIZE NATIONAL VAT REGIMES SOK
AS TO MOVE TOWARD A REDUCTION OF DISTORTIONS TO COMPETITION
AND TO PROMOTE FREEDOM OF MOVEMENT WITHIN THE EC.
THE VAT ASSESSMENT WOULD ALSO ELIMINATE EC DEPENDENCE ON DIRECT
BUDGETARY CONGRIBUTIONS, THE COST OF WHICH HAS FOCUSED MEMBER
STATE ATTENTION ONTHE BURDEN OF
THE EC BUDGET.

5. THE MEMBER STATES, ON THE OTHER HAND, WANT TO
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MAINTAIN THEIR FREEDOM TO USE THE VAT AS SHORT-TERM
ECONOMIC POLICY INSTRUMENT. THEY ALSO WANT TO AVOID
IMPLEMENTING NEW TAX REGULATIONS THAT WOULD ADVERSELY AFFECT
POLITICALLY IMPORTANT INTEREST GROUPS. MEMBER
STATES ARE CONSEQUENTLY SEEKING A NUMBER OF DEROGATIONS FROM THE
DIRECTIVE. THE COMMITTEE OF PERMANENT REPRESENTATIVES HAS NAR-
ROWED THE PRINCIPAL DROGATIONS TO SIX AREAS: 1) THE INCLUSION OF
ZERO RATED ITEMS; 2) ESTABLISHMENT OF A FLAT RATE FOR

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SMALL AGRICULTURAL PRODUCERS; 3) SETTING A MINIMUM FRANCHISE LEVEL FOR SMALL BUSINESSES; 4) THE INCLUSION OF ITEMS WITH REDUCED RATES; 5) TAXATION OF REAL ESTATE OPERATIONS; AND 6) THE EXEMPTION OF EXCISE TAXES FROM THE VAT. THE COMMISSION IS SEEKING TO APPLY A MINIMUM OF DEROGATIONS AND EXPECTS MEMBER STATES TO COMPENSATE THE EC FOR LOSS OF REVENUE CAUSED BY DEROGATIONS.

6. THE COUNCIL WILL ALSO CONSIDER THE COMMISSION'S TAX ACTION PROGRAM WHICH SETS FORTH TAX MEASURES TO BE ADOPTED IN THE NEXT THREE YEARS (SEE REF A). THE COMMISSION WOULD LIKE FOR THE MEMBER STATES TO INDICATE THEIR WILLINGNESS TO TAKE UP A NUMBER OF LEGISLATIVE PROPOSALS.

7. COMMENT: MEMBER STATES HAVE PUT OFF FOR TWO YEARS SERIOUS CONSIDERATION OF THE VAT DIRECTIVE BECAUSE OF ITS COMPLEXITY AND POSSIBLE ADVERSE IMPACT ON NATIONAL INTERESTS.IN FACT, WHEN THE FINANCE COUNCIL TOOK UP THE DIRECTIVE LAST DECEMBER, THE MINISTERS REFUSED TO EVEN DEBATE THE ISSUES (SEE REF B).
THE COMMISSION, HOWEVER, CONSIDERS THE HARMONIZATION OF THE VAT BASE AS A FUNDAMENTAL ASPECT OF ECONOMIC INTEGRATION.
IT CONSEQUENTLY CONTINUES TO SEEK TO APPLY THE DIRECTIVE TO THE WIDEST POSSIBLE RANGE OF ACTIVITIES. COMMISSION OFFICIALS BELIEVE THE COUNCIL'S REACTIONS WILL BE INDICATIVE OF THE MEMBER STATE WILLINGNESS TO PURSUE ECONOMIC INTEGRATION SCHEMES THAT CONFLICT WITH NATIONAL INTERESTS AND PRACTICES.
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